Sales and Use Tax (Tips/Gratuities)

When is sales tax charged on tips/gratuities?

Sales tax is charged on tips and gratuities when included in the cost of food served by restaurants, banquet facilities, hotels/motels and caterers or in the cost a services provided. Tips and gratuities are taxable when:

they are not separately stated, or

they are collected by the employer and distributed as part of the employee wages earned, or

any portion is retained by the business or,

the business uses them to compensate other persons and not actual server(s) or service providers.